

## Message Text

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ORIGIN IO-13

INFO OCT-01 EUR-12 ISO-00 ABF-01 EB-07 TRSE-00 AID-05

CIAE-00 INR-07 NSAE-00 L-03 OMB-01 SS-15 SP-02 NSC-05

FRB-03 AF-08 ARA-06 EA-07 NEA-10 AGR-05 OES-06 INT-05

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TREASRY:FCS/BCM:IKESSER

EUR/EX:JCTULL

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R 191619Z JUL 76

FM SECSTATE WASHDC

TO AMEMBASSY MOSCOW 9076/77

INFO USMISSION USUN NEW YORK

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C O N F I D E N T I A L STATE 177984

GENEVA FOR ECOSOC DEL

C O R R E C T E D COPY (PARA 4 LINE 11 OMITTED)

E.O. 11652: GDS

TAGS: UNDP, EAID, UR

SUBJECT: UNDP--U.S. PROPOSAL FOR PURCHASE OF CURRENCIES

REF: (A) MOSCOW 10581 (B) STATE 169133

1. FOLLOWING IS ADDITIONAL TO INFO PROVIDED REF (B).

AS AT DECEMBER 31, 1975 UNDP HOLDINGS OF CURRENCIES IT HAS

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FOUND "DIFFICULT TO UTILIZE" (VARIOUSLY TERMED "DIFFICULT  
CURRENCIES," "NOT READILY USABLE CURRENCIES" OR

"ACCUMULATED NON-CONVERTIBLE CURRENCIES") WERE AS FOLLOWS

(U.S. DOLLAR EQUIVALENTS; PER UNDP DOCUMENT DP/195,

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- ALBANIA	85
- ALGERIA	187
- BULGARIA	552
- CHINA	3,669
- CUBA	1,268
- CZECHOSLOVAKIA	704
- DEM. REP. OF GERMANY	1,397
- HUNGARY	363
- NEW ZEALAND	1,237
- POLAND	2,739
- USSR	16,032
- YUGOSLAVIA	668
- TOTAL	28,901

2. THE SOVIET ACCUMULATION OF 16,032,000 DOLLARS REPRESENTS 12.184 MILLION RUBLES CONVERTED BY UNDP AT OFFICIALLY DESIGNATED RATE OF .754. THIS AMOUNT INCLUDES SMALL ACCUMULATIONS OF RUBLES ARISING OUT OF BYELORUSSIA SSR AND UKRAINIAN SSR CONTRIBUTIONS TO UNDP, WHICH UNDP GROUPS TOGETHER FOR PRESENTATION PURPOSES. THESE ACCUMULATIONS HAVE BEEN BROUGHT ABOUT FROM SOVIET PRACTICE OVER THE YEARS OF MAKING ITS CONTRIBUTIONS TO UNDP IN RUBLES AND ALLOWING ONLY PARTIAL CONVERTIBILITY

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BY UNDP INTO OTHER CURRENCIES. THE CONDITIONS APPLIED BY THE USSR PRIOR TO 1971 PERMITTED UNDP WITH SOME INGENUITY, TO CONVERT UP TO ABOUT 65 PERCENT OF USSR CONTRIBUTIONS. IN 1971 USSR ABRUPTLY ADOPTED THE CURRENT POLICY OF PERMITTING ONLY 25 PERCENT CONVERTIBILITY OF ITS ANNUAL CONTRIBUTION (WHICH HAS STOOD FOR 14 YEARS AT THE AMOUNT OF RUBLES 2,700,000; ANNUAL CONTRIBUTION OF BYELORUSSIAN SSR IS RUBLES 135,000, OF UKRAINIAN SSR IS RUBLES 337,500).

3. FOR POLITICAL, IDEOLOGICAL AND ECONOMIC REASONS USSR HAS RESISTED ALL ATTEMPTS TO OBTAIN GREATER CONVERTIBILITY. ITS POSITION HAS BEEN THAT IF THERE IS A WILL,

UNDP AND ITS EXECUTING AGENCIES WILL BE ABLE TO DEVISE WAYS OF USING THESE FUNDS. WITH RARE EXCEPTIONS, THIS HAS NOT HAPPENED, MAINLY BECAUSE THE SERVICES AND GOODS THE SOVIETS HAVE OFFERED WERE NOT IN DEMAND OR REQUIRED TOO LONG A WAITING. THE NOTABLE EXCEPTION WERE 2 FAO REGIONAL FISHERY PROJECTS (2 TO 8 MILLION RUBLE POTENTIAL) PUT TOGETHER BY UNDP AND WHICH THE SOVIETS CONTINUALLY CITE AS A PROOF THAT SOMETHING CAN BE DONE IF THERE IS A WILL. UNDP HAS BEEN UNSUCCESSFUL IN DEVELOPING

OTHER PROJECTS DESPITE SINCERE AND SUBSTANTIAL EFFORTS WITH THE RESULT THAT THE ACCUMULATION OF RUBLES MOUNTS (PRESENTLY AT THE RATE OF 700,000 DOLLARS NET PER ANNUM). UNDP HAS SENT SEVERAL MISSIONS TO MOSCOW FOR PURPOSE OF ACHIEVING GREATER UTILIZATION OF THESE FUNDS BUT WITHOUT SUCCESS. BUREAUCRATIC RESTRICTIONS AND OBSTRUCTIONS OF SOVIET AGENCIES ARE SUCH THAT EVEN TODAY UNDP OFFICIAL TRAVEL TO MOSCOW ON AEROFLOT IS OFTEN PAID IN HARD CURRENCY DESPITE UNDP'S HOLDINGS OF RUBLES.

4. UNTIL RECENTLY EXPERTS ENGAGED BY THE UNDP WERE PAID 25 PERCENT OF THEIR SALARIES IN HOME COUNTRY CURRENCY. THIS PROVIDED AN OUTLET FOR SOME OF THE ACCUMULATED RUBLES BECAUSE UNDP ENGAGES A NUMBER OF USSR EXPERTS. HOWEVER TO SIMPLIFY ACCOUNTING OPERATIONS UN AGENCIES RECENTLY DISCONTINUED THIS PRACTICE. THERE IS A GOOD CHANCE THAT BECAUSE OF OUR INSISTENCE THE UNDP, AT LEAST, WILL LIKELY RE-ESTABLISH IT. IN THE UNDP GOVERNING COUNCIL THE U.S. CONFIDENTIAL

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IS WORKING WITH OTHER COUNTRIES ON OTHER MEASURES AS WELL TO DEAL WITH THE PROBLEM OF FUTURE ACCUMULATIONS. IT IS A ONE-TIME PROPOSITION. WE ARE IN

EARNEST ABOUT THIS PURCHASE OFFER AND INTEND TO ADVANCE IT VIGOROUSLY AT CAPITALS AND IN ALL APPROPRIATE UN FORA.

5. EMBASSY SHOULD STRESS WORLDWIDE SCOPE OF PROPOSAL EMPHASIZING IT IS NOT AIMED AT USSR. YOU MAY INFORM SOVIETS THAT AT LEAST ONE DONOR OF ACCUMULATED NON-CONVERTIBLE CURRENCY HAS ALREADY APPROACHED U.S. IN RESPONSE TO OUR OFFER INDICATING A STRONG INTEREST AND LIKELIHOOD OF ACCEPTING (FYI NEW ZEALAND).

6. THE SOVIET RUBLES IN QUESTION EXIST IN THE FORM OF CREDITS IN A SOVIET CONTROLLED ACCOUNT BEARING A UNDP

NOTATION IN THE BANK FOR FOREIGN TRADE OF THE USSR, NEGLINAYA ULIZA 12, MOSCOW. ESSENTIALLY WHAT WE ARE SEEKING IS THE TRANSFER OF SIGNIFICANT AMOUNT OF THOSE RUBLE CREDITS TO A U.S. ACCOUNT SIMULTANEOUS WITH OUR DEPOSIT IN NEW YORK OF DOLLAR EQUIVALENTS IN A BANK

ACCOUNT OF UNDP. OF COURSE, ANY ARRANGEMENT TO THIS END WOULD HAVE TO INCLUDE PARTICIPATION OF UNDP. WE WOULD EXPECT IT WOULD BE INCLUDED IN ANY FORMAL NEGOTIATIONS THAT SHOULD TAKE PLACE SHOULD THAT STAGE EVER BE REACHED.

7. EMBASSY REQUESTED TO MAKE DEMARCHE AT HIGH LEVEL TO APPROPRIATE SOVIET AUTHORITIES FOR PURPOSE OF ELICITING SOVIET REACTION TO OUR PROPOSAL AS IT RELATES TO RUSSIAN RUBLES AND TO SOLICIT USSR SUPPORT FOR IT. THE ESSENCE OF OUR OFFER IS THAT:

- A. WE ARE WILLING, BASED UPON OUR NEEDS, TO PAY DOLLARS TO THE UNDP FOR SIGNIFICANT PORTIONS OF RUBLES HELD IN USSR BANK ACCOUNT IN NAME OF THE UNDP;
- B. RUBLES WOULD BE TRANSFERRED TO U.S. EMBASSY'S RUBLE OPERATING ACCOUNT UPON PAYMENT BY US OF DOLLARS TO UNDP;
- C. SOVIET UNION WOULD AGREE TO ALLOW U.S. TO USE THE TRANSFERRED RUBLES IN SOVIET UNION WITHOUT RESTRICTION; AND
- D. THE RATE OF EXCHANGE FOR THE PURCHASE OF THE RUBLES FROM UNDP WOULD BE AT LEAST AS FAVORABLE AS THE CONFIDENTIAL

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RATE OF EXCHANGE AT WHICH WE COULD BUY RUBLES THROUGH SOVIET BANKS AT OFFICIAL RATES.

8. FOR EMBASSY BACKGROUND, IN MAY, THE UNDP ADMINISTRATOR VISITED MOSCOW AND DISCUSSED THE PROBLEM INTER ALIA WITH V.N. NOVIKOV (DEPUTY CHAIRMAN OF THE USSR COUNCIL OF MINISTERS), A. SKATCHKOV (CHAIRMAN OF THE STATE COMMITTEE FOR EXTERNAL ECONOMIC RELATIONS--GKES), HIS DEPUTY, V.A. SERGHEEV, N.N. RODIONOV (DEPUTY FOREIGN MINISTER) AND B.S. VAGANOV (RECTOR OF THE USSR ACADEMY OF FOREIGN TRADE), FOR THE PURPOSE OF ACHIEVING INCREASED CONVERTIBILITY AND UTILIZATION OF SOVIET RUBLE HOLDINGS OF UNDP. ONLY CONCRETE RESULT WAS DISCUSSION OF A CONTRACT FOR A THIRD FAO/UNDP FISHERIES PROJECT. KISSINGER

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## Message Attributes

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